

PENSION FUND COMMITTEE – 06 DECEMBER 2019

SETTING OBJECTIVES FOR THE INDEPENDENT FINANCIAL ADVISER

Report by Director of Finance

RECOMMENDATIONS

1. **The Committee is RECOMMENDED to agree the strategic objectives for the IFA as set out in paragraph 11 of the report, for inclusion in the IFA contract**

Introduction

2. On 14 September 2017, in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act) as provided for by section 234I of the Financial Services and Markets Act 2000, the Financial Conduct Authority (FCA) made an ordinary reference to the Chair of the Competition and Markets Authority (CMA) for the constitution of a group to conduct a market investigation of the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK.
3. On 12 December 2018, the CMA published its report on the market investigation reference entitled Investment Consultants Market Investigation Final Report (the report).
4. In the report, the CMA decided (among other matters) that:
 - (a) features of the investment consultancy market, individually and in any combination, restrict or distort competition in connection with the supply and acquisition of investment consultancy services in the UK to and by pension scheme trustees and thereby have an adverse effect on competition (AEC) in respect of investment consultancy services;
 - (b) features of the fiduciary management market, individually and in any combination, prevent, restrict or distort competition in connection with the supply and acquisition of fiduciary management services in the UK to and by pension scheme trustees and thereby have an AEC in respect of fiduciary management services; and
 - (c) the CMA should take action to remedy, mitigate or prevent each AEC and the detrimental effect on customers that may be expected to result from each AEC.
5. On 11 February 2019, in accordance with section 165 of, and paragraph 2(1)(a) of Schedule 10 to, the Act, the CMA published a Notice of its intention to make an Order and the proposed Order as part of a package of remedies to remedy, mitigate or prevent the AECs and resulting customer detriment which it had

found in the report. In accordance with paragraph 2(1)(b) of Schedule 10 to the Act, the CMA has considered representations made in accordance with the Notice and not withdrawn.

6. On 5 April 2019, this Order was notified to the European Commission pursuant to Article 24(12) Directive 2014/65/EU (on markets in financial instruments) in respect of additional requirements intended to be imposed by the Order and the two-month period under that Article for the European Commission to provide its opinion on the proportionality of and justification for the additional requirements has concluded.

Impact on the Pension Fund

7. Part 7 of the Order, 'Investment Consultancy Services – objective setting', prohibits Pension Scheme Trustees (whose definition in the Order includes LGPS Committees) from entering into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or from continuing to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider.
8. The Pension Fund's contract with MJ Hudson Investment Advisers Limited for the services of an Independent Financial Adviser (IFA) falls under the definition of the provision of Investment Consultancy Services under the Order. As such, the Committee is required to set strategic objectives for the IFA.
9. Under the Order, and considering the accompanying Explanatory Note issued by the CMA, the objectives:
 - Should be 'closely linked' to the Fund's investment objectives
 - Should be reviewed at least every three years and after a significant change to the investment strategy or objectives
 - Should be established no later than 10 December 2019 (i.e. 6 months following the date of the final Order published by the CMA) or prior to appointment of a new investment consultant.

IFA Objectives

10. The following is proposed to be included in the IFA contract prior to 10 December 2019 as strategic objectives:
11. Provide strategic investment advice to:
 - (a) deliver the Pension Fund's target of achieving and maintaining a 100% funding level, balancing risk and return in the achievement of this objective and having regard to the Fund's Investment Strategy Statement

(b) ensure there are sufficient liquid resources available to meet the Fund's current liabilities and investment commitments as they fall due

(c) achieve the target investment return as set out in the Fund's Investment Strategy Statement, as amended from time to time.

12. As part of the annual review of the IFA, the objectives will be reviewed for appropriateness and performance against the targets will be assessed.

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Background papers: Nil

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